

GAO

Report to the Chairman, Subcommittee
on Military Readiness, Committee on
National Security, House of
Representatives

October 1997

NAVY ORDNANCE

Analysis of Business Area Efforts to Streamline Operations and Reduce Costs



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United States
General Accounting Office
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Accounting and Information
Management Division

B-274841

October 15, 1997

The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military Readiness
Committee on National Security
House of Representatives

Dear Mr. Chairman:

This is our second report in response to your request that we review financial and management issues related to the ordnance business area of the Navy Working Capital Fund. The Navy reorganized this business area in 1993 in order to reduce costs and address various deficiencies in ordnance logistics management that were identified during Desert Shield/Desert Storm operations and by various working groups and studies. However, the business area has experienced financial difficulties since the reorganization—losing a reported \$212 million during fiscal years 1994 through 1996 despite price increases of about 78 percent. Our March 1997 report¹ discussed the causes of these price increases and losses, including the fact that business area managers have not been able to reduce overhead costs as rapidly as their workload has declined. This second report (1) provides our evaluation of the Navy's proposed and ongoing actions to reduce the business area's costs and (2) identifies additional cost reduction opportunities.

Background

The Navy ordnance business area, which consists of the Naval Ordnance Center (NOC) headquarters and subordinate activities, such as Naval weapons stations, operates under the revolving fund concept as part of the Navy Working Capital Fund. It provides various services, including ammunition storage and distribution,² ordnance engineering, and missile maintenance, to customers who consist primarily of Defense organizations, but also include foreign governments. Revolving fund activities rely on sales revenue rather than direct congressional appropriations to finance their operations and are expected to operate on a break-even basis over time—that is, to neither make a profit nor incur a loss, but to recover all costs. During fiscal year 1996, the Navy ordnance business area reported revenue of about \$563 million and costs of about

¹Navy Ordnance: Analysis of Business Area Price Increases and Financial Losses (GAO/AIMD/NSIAD-97-74, March 14, 1997).

²Ammunition storage and distribution, which is one of the business area's core requirements and largest workloads, involves the receipt, storage, segregation, and issue of ammunition, as well as services related to loading ammunition on to and off of naval ships and commercial vessels.

\$600 million, for a net operating loss of about \$37 million. In accordance with current Department of Defense (DOD) policy, this loss and the \$175 million the business area lost during fiscal years 1994 and 1995 will be recouped by adding surcharges to subsequent years' prices.

As discussed in our March 1997 report, higher-than-expected overhead costs were the primary cause of the losses that the business area incurred during fiscal years 1994 through 1996. We also testified on this problem in May 1997,³ and recommended that the Secretary of the Navy develop a plan to streamline the Naval ordnance business area's operations and reduce its overhead costs. The Navy has initiated a restructuring of the business area that, according to the Secretary of the Navy, is "akin to placing it in receivership."

Results in Brief

The Navy is in the process of developing the cost reduction plan we recommended in our March 1997 report and has proposed and begun implementing a number of actions to reduce its ordnance business area's annual operating costs by \$151 million, or 25 percent, between fiscal year 1996 and 1999. This is a significant step in the right direction and should result in substantial cost reductions and more streamlined operations.

Additionally, our review of the business area's operations and discussions with the Office of the Secretary of Defense (OSD) and Navy ordnance officials indicate that the Navy has both an opportunity and the authority to further reduce Navy ordnance costs. Specifically, (1) redundant ordnance engineering capability exists within the business area and between the business area and other Navy organizations, (2) military personnel are performing work that could be performed by less expensive civilian employees, (3) redundant missile maintenance capability exists, and (4) no financial incentive exists for customers to store only needed ammunition (the business area's inventory records show that 43 percent of the ammunition stored was unneeded as of May 1, 1997) since they do not directly pay for storage costs.

While most of the planned cost reduction actions appear to be appropriate, it remains to be seen whether the business area will reduce costs by \$151 million. In addition, our review of available data indicates that one of the cost reduction actions—the planned personnel reductions—may adversely affect the Concord Naval Weapons Station's

³Defense Depot Maintenance: Challenges Facing DOD in Managing Working Capital Funds (GAO/T-NSIAD/AIMD-97-152, May 7, 1997).

ability to load ships during mobilization, thus creating potential readiness problems. These personnel reductions are likely to have little impact on the Navy, but could have a significant impact on the Army and Air Force, which would rely heavily on Concord during a major contingency operation.

Objective, Scope, and Methodology

The objective of our audit of the Navy ordnance business area was to assess the Navy's efforts to reduce costs and streamline its operations. Our current audit of the restructuring of the Navy ordnance business area is a continuation of our work on the business area's price increases and financial losses (GAO/AIMD/NSIAD-97-74, March 14, 1997). In that report we recommended that the Secretary of Defense direct the Secretary of the Navy to develop a plan to streamline the Navy ordnance business operations and reduce its infrastructure costs, including overhead. This plan should (1) concentrate on eliminating unnecessary infrastructure, including overhead, (2) identify specific actions that need to be accomplished, (3) include realistic assumptions about the savings that can be achieved, (4) establish milestones, and (5) clearly delineate responsibilities for performing the tasks in the plan.

To evaluate the actions being taken or considered by the NOC to streamline its operations and reduce costs, we (1) used the work that we performed in analyzing the business area's price increases and financial losses and (2) analyzed budget reports to identify planned actions and discussed the advantages and disadvantages of the planned actions with Navy, OSD, U.S. Transportation Command, and Joint Staff officials. In analyzing the actions, we determined (1) if specific steps and milestones were developed by the NOC to accomplish the actions, (2) whether the initiatives appeared reasonable and could result in improved operations, (3) what dollar savings were estimated to result from the implementation of the actions, (4) whether the actions went far enough in reducing costs and improving operations, and (5) what other actions not being considered by the NOC could result in further cost reductions or streamlined operations. We did not independently verify the financial information provided by the Navy ordnance business area.

We performed our work at the Office of the DOD Comptroller and Joint Staff, Washington, D.C.; Offices of the Assistant Secretary of Navy (Financial Management and Comptroller), Naval Sea Systems Command, Naval Air Systems Command, and Headquarters, Defense Finance and Accounting Service, all located in Arlington, Virginia; Headquarters, U.S.

Atlantic Fleet, Norfolk, Virginia; Naval Ordnance Center Headquarters, Indian Head, Maryland; Naval Ordnance Center Atlantic Division, Yorktown, Virginia; Naval Ordnance Center Pacific Division, Seal Beach, California; Naval Weapons Station, Yorktown, Virginia; Naval Weapons Station, Charleston, South Carolina; Naval Weapons Station, Earle, New Jersey; Naval Weapons Station, Seal Beach, California; Naval Weapons Station, Concord, California; Naval Weapons Station Detachment, Fallbrook, California; Naval Warfare Assessment Division, Corona, California; and U.S. Transportation Command, Scott Air Force Base, Illinois. Our work was performed from June 1996 through September 1997 in accordance with generally accepted government auditing standards.

We requested written comments on a draft of this report. The Under Secretary of Defense (Comptroller) provided us with written comments, which we incorporated where appropriate. These comments are reprinted in appendix I.

Navy's Proposed and Ongoing Actions

The Navy has incorporated a goal to reduce annual costs by \$151 million into its ordnance business area's budget estimate and has identified the major actions that will be taken to achieve this goal. Our analysis of available data indicates that the planned actions should result in substantial cost reductions and more streamlined operations. However, we cannot fully evaluate the reasonableness of the cost reduction goal at this time because the Navy does not expect to finalize the cost reduction plan until October 1997.

Ongoing Restructuring Should Reduce Costs and Streamline Operations

During the fiscal year 1998 budget review process, OSD officials worked with the Navy to formulate a restructuring of the Navy ordnance business area. According to the budget estimate the Navy submitted to the Congress in February 1997, this restructuring will allow the ordnance business area to achieve substantial cost and personnel reductions without adversely affecting ordnance activities' ability to satisfy their customers' peacetime and contingency requirements. Specifically, the budget estimate indicated that between fiscal years 1996 and 1999, the business area's civilian and military fiscal year end strengths will decline by 18 percent and 23 percent, respectively, and its annual costs will decline by \$151 million, or 25 percent. The budget also indicated that the business area will increase its fiscal year 1998 prices in order to recover \$224 million of prior year losses and achieve a zero accumulated operating result by the end of fiscal year 1998.

The Navy's fiscal year 1998 budget submission also indicated that the planned restructuring of the business area (1) is based on an assessment of whether current missions should be retained in the business area, outsourced to the private sector, or transferred to other organizations and (2) will make fundamental changes in how the business area is organized and conducts its business. Our assessment of the individual actions—most of which are expected to be initiated by October 1997 and completed during fiscal year 1998—shows that the Navy is planning to reduce costs by eliminating or consolidating redundant operations and reducing the number of positions in the business area. These actions, which are listed below, should help to streamline the Navy ordnance operations and reduce costs.

- Properly sizing the business area's workforce to accomplish the projected workload by eliminating about 800 positions, or about 18 percent of the total, before the end of October 1997.
- Enhancing the business area's ability to respond to unanticipated workload changes by increasing the percentage of temporary workers in the work force from 8 percent to 20 percent.
- Enhancing the business area's ability to identify redundant ordnance engineering capability and to streamline its information resource functions by consolidating management responsibility for these areas by October 1, 1997.
- Reducing overall operating costs by significantly cutting back on operations at the Charleston and Concord Weapons Stations, beginning in October 1997.
- Eliminating redundant capability and reducing costs by consolidating (1) some weapons station functions, such as safety and workload planning, at fewer locations, (2) inventory management functions at the Inventory Management and Systems Division, and (3) maintenance work on the Standard Missile at the Seal Beach Naval Weapons Station.
- Reducing overhead contract costs, such as utilities and real property maintenance during fiscal year 1998.
- Enhancing business area managers' ability to focus on their core ordnance missions of explosive safety, ordnance distribution, and inventory management by transferring east coast base support missions to the Atlantic Fleet on October 1, 1997.

Additional Cost Reductions Are Possible

The Navy's planned restructuring of its ordnance business area will reduce overhead costs and is an important first step toward the elimination of the redundant capability both within the business area and between the business area and other organizations. However, as discussed in the

following sections, our analysis indicates that there are opportunities for additional cost reductions by (1) developing and implementing a detailed plan to eliminate redundant ordnance engineering capability, (2) converting military guard positions to civilian status, and (3) implementing two actions that Navy ordnance officials are currently considering.

Elimination of Redundant Engineering Capability Could Yield Substantial Savings

Navy ordnance officials plan to consolidate management responsibility for the business area's nine separate ordnance engineering activities under a single manager on October 1, 1997. This will allow this manager to have visibility over all of the business area's engineering resources and should facilitate more effective management of these engineering resources. However, it will not result in any savings unless action is also taken to eliminate the redundant ordnance engineering capability that previous studies have identified both within the ordnance business area and between the business area and other Navy organizations.

For example, a 1993 Navy study estimated that 435 work years, or \$22 million, could be saved annually by reducing Navy-wide in-service ordnance engineering functions from 20 separate activities to 8 consolidated activities. However, Navy ordnance officials stated that these consolidations were never implemented. They also stated that although they did not know why the consolidations were not implemented, they believe it was because (1) the Navy's ordnance engineering personnel are managed by the NOC and three different major research and development organizations and (2) the Navy did not require these four organizations to consolidate their ordnance in-service engineering functions.

Converting Military Guard Positions to Civilian Status Could Save Money

Since 1954, DOD Directive 1100.4 has required the military services to staff positions with civilian personnel unless the services deem a position military essential for reasons such as combat readiness or training. This is primarily because, as we have previously reported,⁴ on average, a civilian employee in a support position costs the government about \$15,000 per year less than a military person of comparable pay grade.

Our analysis showed that the percentage of military personnel in the NOC workforce is about six times greater than in other Navy Working Capital Fund activities, with most of these positions being military guards such as

⁴DOD Force Mix Issues: Greater Reliance on Civilians in Support Roles Could Provide Significant Benefits (GAO/NSIAD-95-5, October 19, 1994).

personnel who guard access to the weapons station at the main entrance. Further, Navy ordnance officials indicated that they know of no reason why the guard positions should not be converted to civilian status. In fact, these officials said that they would prefer to have civilian guards since they are cheaper than military guards, and they noted that all of their activities already have some civilian security positions. Consequently, the Navy can save about \$6.8 million annually by converting the NOC's guard positions to civilian status (based on the \$15,000 per position savings estimate).

NOC officials told us that they reviewed the need for all of their military positions, and indicated that they plan to eliminate some of these positions. However, they stated that they do not plan to convert any military guard positions to civilian status. A Navy Comptroller official told us that (1) all of the NOC's guard functions will probably be transferred to the Atlantic and Pacific fleets as part of the ordnance business area restructuring and (2) the fleet commanders, not the NOC, should, therefore, decide whether the military guard positions should be converted to civilian status.

Navy Is Considering Additional Actions to Reduce Costs

Navy ordnance officials are currently considering two additional actions—further consolidating the business area's missile maintenance work and charging individual customers for the storage of ammunition—that would result in additional cost reductions and a more efficient operation, if implemented. As discussed below, consolidating missile maintenance work would allow the business area to reduce the fixed overhead cost that is associated with this mission, and charging customers for ammunition storage services would give customers an incentive to either relocate or dispose of unneeded ammunition and, in turn, could result in lower storage costs.

Further Consolidation of Missile Maintenance Work Is Possible

The Navy ordnance business area, which has had a substantial amount of excess missile maintenance repair capacity for several years, is being forced to spread fixed missile maintenance overhead costs over a declining workload base that is expected to account for only 3 percent of the business area's total revenue in fiscal year 1998. This problem, which is caused by factors such as force structure downsizing, continues even though the business area recently achieved estimated annual savings of \$2.3 million by consolidating all maintenance work on the Standard Missile at one location. The following table shows the substantial decline in work related to four specific types of missiles.

Table 1: Navy Ordnance Business Area's Missile Maintenance Workload Trend for Four Missiles

Number of missiles repaired

Type of missile	Fiscal year				
	1994	1995	1996	1997 (estimate)	1998 (estimate)
Harm	1,463	765	186	162	73
Harpoon	479	474	496	367	95
Standard	2,497	2,945	1,082	500	930
Sidewinder	1,806	2,288	1,292	337	601

Note: Actual data for fiscal years 1994, 1995, and 1996, and planned data for fiscal years 1997 and 1998.

NOC officials are currently evaluating several alternatives for consolidating missile maintenance work, including (1) consolidating all work on air launched missiles at one Naval weapons station, (2) transferring all or part of the business area's missile maintenance work to the Letterkenny Army Depot, Ogden Air Logistics Center and/or a private contractor, and (3) accomplishing all or part of the work in Navy regional maintenance centers. According to DOD, the evaluation of these alternatives should be completed in the spring of 1998.

Based on our discussions with Navy ordnance and maintenance officials, the NOC's evaluations of maintenance consolidation alternatives should

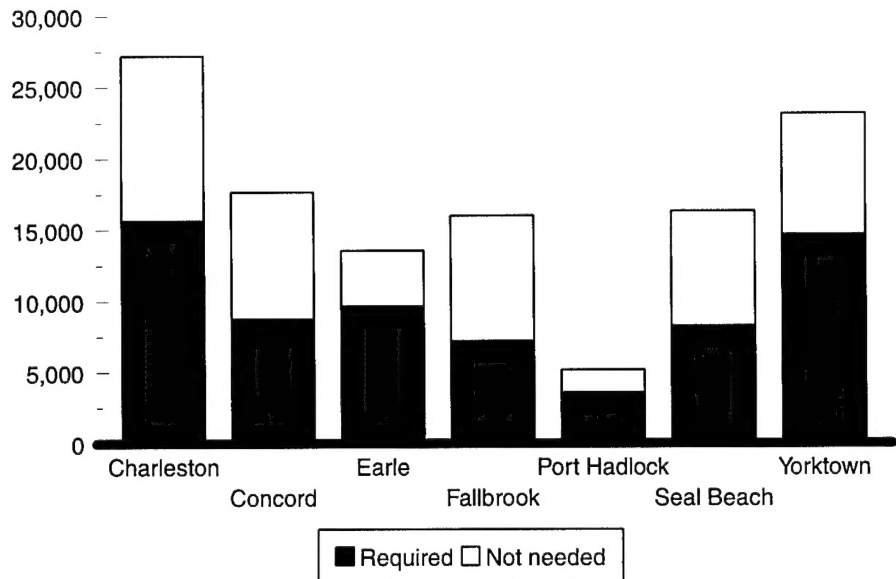
- identify the total cost of the various alternatives, including onetime implementation costs and costs that are not included in depot maintenance sales prices, such as the cost of shipping items from coastal locations to inland depots and/or contractor plants and
- assess each alternative's potential impact on readiness.

Charging for Ammunition Storage Could Result in Lower Costs and Other Benefits

The Navy ordnance business area incurs costs to store ammunition for customers that are not required to pay for this storage service. Instead, this storage cost is added to the price charged to load ammunition on and off Naval ships and commercial vessels. As shown in the following figure, the business area's inventory records indicate that 51,231 tons, or about 43 percent, of ammunition stored at the weapons stations was not needed as of May 1, 1997, because (1) there is no requirement for it or (2) the quantity on hand exceeds the required level.

Figure 1: Amount of Ordnance Stored at Naval Weapons Stations as of May 1, 1997

Unit of measure is tons



If the business area charged customers for ammunition storage, the costs of the storage service would (1) be charged to the customers that benefit from this service and (2) provide a financial incentive for customers to either relocate or dispose of unneeded ammunition. This, in turn, could allow the business area to reduce the number of locations where ammunition is stored and thereby reduce operating costs. This approach has been adopted by the Defense Logistics Agency, which also performs receipt, storage, and issue functions, and the agency stated that instituting such user charges has helped to reduce infrastructure costs by allowing it to eliminate unneeded storage space. In addition, we recently recommended such an approach in our report, Defense Ammunition: Significant Problems Left Unattended Will Get Worse (GAO/NSIAD-96-129, June 21, 1996).

Navy ordnance officials told us that they are currently considering charging customers for the storage of ammunition and are taking steps to do so. These officials informed us that they (1) have discussed DLA's experience in charging a storage cost with DLA officials, (2) have discussed this matter with the torpedo program manager and sent a letter addressing

the cost to move the torpedoes off the weapons stations, (3) are drafting similar letters to the other ordnance program managers, and (4) are in the process of determining ammunition storage costs for use in developing storage fees.

Some Personnel Reductions Could Adversely Affect Customer Support

Most aspects of the Navy's planned restructuring of its ordnance business area appear to be cost-effective alternatives. However, DOD budget documents indicate that the Navy's fiscal year 1998 budget submission for its ordnance business area did not adequately consider the impact that planned personnel reductions would have on the business area's ability to support non-Navy customers during mobilization. These documents also indicate that the Navy was proposing to reduce the operating status of some weapons stations, including Concord. However, OSD officials were concerned with the Navy's proposal because these weapons stations

- would handle a majority of all DOD-wide, Army, Air Force, and U.S. Transportation Command explosive cargo in the event of a major contingency;
- have 10 times the explosive cargo capacity of the ports considered for retention;
- are having their facilities expanded by the Army to accomplish additional U.S. Transportation Command work; and
- have specialized explosive storage areas that must be retained to support current inventories of Navy missiles.

OSD officials concluded that no alternative to these ports exists and that DOD must, therefore, keep these ports operational. The Deputy Secretary of Defense agreed with this assessment and, in December 1996, directed the Navy not to place any port in a functional caretaker status or reduce its ordnance handling capability until a detailed plan is (1) coordinated within OSD, the Joint Staff, and the other Military Departments and (2) approved by the Secretary of Defense.

According to U.S. Transportation Command and Navy ordnance officials, a May 1997 DOD-wide paper mobilization exercise validated the OSD officials' concerns about Concord Naval Weapons Station performing its mobilization mission. Specifically, the exercise demonstrated that, among other things, (1) the Concord Naval Weapons Station is one of three ports that are essential to DOD for getting ordnance items to its warfighters during mobilization and (2) if Concord is not sufficiently staffed or

equipped, there could be a delay in getting ordnance to the warfighter during mobilization.

According to Navy ordnance, OSD, the Joint Staff, and U.S. Transportation Command officials, although there is widespread agreement that Concord is needed by all of the military services to meet ammunition out-loading requirements during mobilization, there is no agreement on how to finance the personnel that will be needed in order to accomplish this mission. The Army and Air Force do not believe they should subsidize the operations of a Navy base. At the same time, Navy officials do not believe they should finance the entire DOD mobilization requirement at Concord because (1) most of their facilities in the San Francisco Bay area have been closed and Concord is, therefore, no longer needed by the Navy during peacetime, (2) the Army and Air Force need Concord more than the Navy does, and (3) Concord does not receive enough ship loading and unloading work during peacetime to keep the current work force fully employed. Accordingly, the Navy plans to retain some personnel at Concord, but has shifted all of its peacetime ship loading and unloading operations out of Concord and plans to gradually transfer ammunition currently stored at Concord to other locations.

Navy, OSD, and Joint Staff officials informed us that several actions are needed to ensure that Concord has sufficient, qualified personnel to load ammunition onto ships: (1) revalidate the ammunition out-loading mobilization requirements for Concord, (2) determine the minimum number of full-time permanent personnel that Concord needs during peacetime in order to ensure that it can quickly and effectively expand its operations to accomplish its mobilization mission (the core workforce), (3) ensure that Concord's core workforce is sufficiently trained to accomplish its mobilization mission, and (4) determine a method, either through a direct appropriation or the Working Capital Funds, to finance the Concord's mobilization requirements.

Conclusions

To the Navy's credit, it has acted to reduce its ordnance business area's annual cost by \$151 million and has incorporated this cost reduction goal into the business area's budget estimate. Our analysis of available data indicates that, in general, the planned actions should result in substantial cost reductions and more streamlined Navy ordnance operations. The Navy could reduce its cost further and prevent a possible degradation of military readiness by taking the additional actions recommended in this report. Further, the Navy still needs to ensure that a final restructuring

plan is completed so that it can tie together all of its planned actions and establish specific accountability, schedules, and milestones as needed to gauge progress.

Recommendations

In order for the Concord Weapons Station to accomplish its mobilization mission, we recommend that the Secretary of Defense

- revalidate the amount of ammunition Concord Weapons Station needs to load onto ships during mobilization,
- direct the Secretary of the Navy to determine the minimum number of personnel Concord Weapons Station needs during peacetime in order to ensure that it can quickly and effectively expand its operations to accomplish its mobilization mission, and
- ensure that Concord's core workforce is sufficiently trained to accomplish its mobilization mission.

We recommend that the Secretary of the Navy

- incorporate into the NOC's detailed cost reduction plan (1) specific actions that need to be accomplished, (2) realistic assumptions about the savings that can be achieved, (3) milestones, and (4) clearly delineated responsibilities for performing the tasks in the plan;
- evaluate the cost-effectiveness of (1) consolidating all or most of the business area's missile maintenance workload at one location and/or (2) transferring all or some of this work to public depots or the private sector;
- develop and implement policies and procedures for charging customers for ammunition storage services;
- evaluate the appropriateness of converting military guard positions to civilian positions;
- direct the NOC Commander to determine if it would be cost-beneficial to convert non-guard military positions to civilian status; and
- eliminate the excess ordnance engineering capability that previous studies have identified both within the NOC and between the NOC and other Navy organizations.

Agency Comments and Our Evaluation

In its written comments on this report which identifies the actions the Navy ordnance business area is taking to reduce costs and streamline its operations, DOD agreed fully with five of our eight recommendations. It

partially concurred with the remaining three recommendations, as discussed below.

In our draft report, we recommended that the Secretary of Defense direct the Secretary of the Navy to (1) determine the minimum number of personnel Concord Weapons Station needs during peacetime in order to ensure that it can quickly and effectively expand its operation to accomplish its mobilization mission and (2) ensure that this core workforce is sufficiently trained to accomplish its mobilization mission. In partially concurring with this recommendation, DOD agreed that both of these tasks should be accomplished and that the Navy should be responsible for identifying the peacetime manning requirement. However, it indicated that this core workforce cannot be adequately trained for its mobilization mission unless it is given the appropriate amount and type of work during peacetime. DOD further stated it will take steps during the fiscal year 1999 budget process to ensure that adequate and funded workload is provided to Concord. We agree with DOD's comment and revised our final report to recommend that DOD act to ensure that the core workforce is sufficiently trained.

Concerning our recommendation to charge customers for ammunition storage services, the Navy agreed that action should be taken to (1) store only necessary ammunition at its weapons stations and (2) transfer excess ammunition to inland storage sites or disposal. The Navy believes that this can be accomplished without imposing a separate fee for storing ammunition. However, Navy records show that 51,231 tons, or about 43 percent, of ammunition stored at weapons stations was not needed as of May 1997. As stated in this report, because of the persistent nature of this problem, we continue to believe that charging customers for ammunition storage will provide the financial incentive for customers to relocate or dispose of unneeded ammunition.

Finally, concerning our recommendation to convert military guard positions to civilian positions, the Navy stated that it is in the process of transferring the Navy ordnance east coast security positions to the Atlantic Fleet and that it plans to transfer the west coast security positions to the Pacific Fleet. It believes that the two Fleet Commanders need time to evaluate the appropriateness of converting the military guard positions to civilian positions. We agree with DOD's comment that this decision should be made by the Fleet Commanders and have revised our recommendation accordingly. As part of this evaluation, the Navy needs to consider the cost of the guard positions since a civilian employee in a support position costs

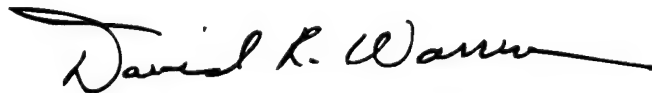
the government about \$15,000 per year less than a military person of comparable pay grade.

We are sending copies of this report to the Ranking Minority Member of your Subcommittee; the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services; the Senate Committee on Appropriations, Subcommittee on Defense; the House Committee on Appropriations, Subcommittee on National Security; the Senate and House Committees on the Budget; the Secretary of Defense; and the Secretary of the Navy. Copies will also be made available to others upon request. If you have any questions about this report, please call Greg Pugnetti at (202) 512-6240. Other major contributors to this report are listed in appendix II.

Sincerely yours,



Jack L. Brock, Jr.
Director, Defense Information and
Financial Management Systems
Accounting and Information
Management Division



David R. Warren
Director, Defense Management
National Security and International
Affairs Division

Comments From the Department of Defense



COMPTROLLER
(Program/Budget)

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

September 23, 1997

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information
Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Dodaro:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "NAVY ORDNANCE: Analysis of Business Area Efforts to Streamline Operations and Reduce Costs," dated July 29, 1997 (GAO Code 511612/OSD Case 1423). The Department is in agreement with five of the eight recommendations set forth in the report. The Department is in partial agreement with the remaining three recommendations.

In Recommendation 2, the GAO recommends the Secretary of Defense direct the Secretary of the Navy to determine and ensure the minimum number of personnel at Concord Weapons Station to accomplish the mobilization mission of the station. The Department intends to examine the staffing at Concord during the FY 1999 budget process and take corrective action, if necessary. In Recommendation 5, the GAO recommends the Secretary of the Navy develop and implement policies and procedures for charging customers for ammunition storage services. The Navy intends to charge for all services but intends to include ammunition storage service costs in their current rates. In Recommendation 6, the GAO recommends the Secretary of the Navy convert military guard positions to civilian positions. The Navy is in the process of examining all security positions at their naval weapon stations and requires time to evaluate the appropriateness of converting the military guard positions to civilian positions.

Detailed comments on the draft report are included as an attachment.

Sincerely,

A handwritten signature in dark ink, appearing to read "W. C. Coonce", is written over the typed name.

William C. Coonce
Director for Revolving Funds

Attachment

**DEPARTMENT OF DEFENSE RESPONSE
TO THE GAO DRAFT REPORT ON
"NAVY ORDNANCE: ANALYSIS OF BUSINESS AREA
EFFORTS TO STREAMLINE OPERATIONS AND REDUCE COSTS"
(GAO CODE 511612, OSD CASE 1423)**

RECOMMENDATION 1: GAO recommends the Secretary of Defense revalidate the amount of ammunition Concord Weapon Station needs to load onto ships during mobilization.

DEPARTMENT OF DEFENSE RESPONSE: Concur. The Navy agrees that a requirement exists to revalidate the amount of ammunition required to be loaded at Naval Weapons Station, Concord during mobilization.

RECOMMENDATION 2: GAO recommends the Secretary of Defense direct the Secretary of the Navy to (1) determine the minimum number of personnel Concord Weapons Station needs during peacetime in order to ensure that it can quickly and effectively expand its operations to accomplish its mobilization mission and (2) ensure that Concord's "core" work force is sufficiently trained to accomplish its mobilization mission.

DEPARTMENT OF DEFENSE RESPONSE: Partially concur. The Navy agrees that Naval Weapons Station, Concord must be adequately manned to support DOD mobilization requirements. Navy ordnance business area has already developed a manning plan which will accomplish the goal of maintaining a trained core work force for Naval Weapons Station (NWS), Concord. However, DOD plans to take steps during the FY 1999 budget process to help ensure that adequate and funded workload is provided to NWS Concord to support the manning plan and maintain a core of adequately trained workers.

RECOMMENDATION 3: GAO recommends the Secretary of the Navy ensure the NAVORDCEN develops a detailed cost reduction plan that (1) identifies the specific actions that need to be accomplished, (2) includes realistic assumptions about the savings that can be achieved, (3) establishes milestones, and (4) clearly delineates responsibilities for performing the tasks in the plan.

DEPARTMENT OF DEFENSE RESPONSE: Concur. The Navy is implementing Naval Ordnance Center reorganization initiatives in phases. The initiative to transfer Base Management on the East to the Fleet Commander and to transfer the Naval Warfare Assessment Division to the Naval Warfare Center is being incorporated into the current budget for execution beginning in FY 1998. Further actions, including the disestablishment of Naval Ordnance Center Headquarters, movement of Inventory Management and Systems to the Naval Supply Systems Command, transfer of ownership of the Naval Weapons Stations to the Fleets, and transfer of Explosive Safety functions to Naval Surface Warfare Center (Indian Head) are being studied. Savings as a result of these actions, which exceed the already significant savings incorporated into the budget, will be reflected in the FY 2000 budget submission.

RECOMMENDATION 4: GAO recommends the Secretary of the Navy evaluate the cost effectiveness of (1) consolidating all or most of the business area's missile maintenance workload at one location and/or (2) transferring all or some of the workload to public depots or the private sector.

DEPARTMENT OF DEFENSE RESPONSE: Concur. The Navy agrees that missile maintenance capabilities are in excess of requirements. We are studying a variety of options, including: consolidation of missile maintenance with LetterKenny Army Depot; and single siting of missile maintenance. The evaluation of these various courses of action is currently ongoing and a decision is not anticipated until mid fiscal year 1998. The results will be incorporated into budget estimates for FY 2000.

RECOMMENDATION 5: GAO recommends the Secretary of the Navy develop and implement policies and procedures for charging customers for ammunition storage services.

DEPARTMENT OF DEFENSE RESPONSE: Partially-concur. The Navy agrees the Naval Ordnance Center (NAVORDCEN) should charge for all services they provide and NAVORDCEN does include ammunition storage service costs in their current rates.

In order to reduce the storage service costs, the Navy is looking at several initiatives. Navy stores ordnance inventory according to Fleet Commanders-in-Chief load plans. The Navy will focus on refining the load plans to ensure that only the necessary amount of Navy owned storage is utilized. Further, ordnance excess to the load plans will be transferred to Army inland storage sites for storage or disposal.

RECOMMENDATION 6: GAO recommends the Secretary of the Navy convert military guard positions to civilian positions.

DEPARTMENT OF DEFENSE RESPONSE: Partially concur. NAVORDCEN is currently in the process of transferring East Coast security positions to CINCLANTFLT and is working with CINCPACFLT on the plan to transfer West Coast security positions to CINCPACFLT. The two Fleet Commanders need time to evaluate the appropriateness of converting the military guard positions to civilian positions. In any case, the price to Ordnance customers is the same whether the guard positions are military or civilian since military labor at Navy Working Capital Fund (NWCF) activities is priced at civilian equivalent rates. Additionally, the total number of military in the Department of the Navy are based upon force structure requirements.

RECOMMENDATION 7: GAO recommends the Secretary of the Navy direct the NAVORDCEN to determine if it would be cost-beneficial to convert non-guard military positions to civilian status.

DEPARTMENT OF DEFENSE RESPONSE: Concur. The Navy ordnance activity group has and is continuing to review the military billet structure to ensure that military billets are only

used where they are essential and/or are the most cost-effective resource available. Excluding the current security related positions, military manning levels have decreased approximately 54% since 1992.

RECOMMENDATION 8: GAO recommends the Secretary of the Navy eliminate the excess ordnance engineering capability that previous studies have identified both within the NAVORDCEN and between the NAVORDCEN and other Navy organizations.

DEPARTMENT OF DEFENSE RESPONSE: Concur. Navy has taken two strong actions to support this step. First, the Navy ordnance management has internally realigned the management of all ordnance engineering functions under a single Division Commander at the Naval Warfare Assessment Division. This realignment will give visibility of all ordnance engineering and decision making about the most efficient allocation of resources to a single management official. This realignment will allow management at the weapons stations to become focused upon their primary mission areas of ordnance distribution, inventory management, and explosives safety. As a second step, the Naval Warfare Assessment Division will transfer to the Naval Surface Warfare Center effective in FY 1998. This transfer will ensure the most efficient use of Defense resources and, once completed, should highlight potential efficiencies achievable through greater synergies, efficiencies, and consolidations within the Navy. FY 2000 budget estimates will reflect the results.

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